

News

REP. FORD PROPOSES **NEWBORN NEST EGG** [Corrected 07/24/04]

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Correction from July 23, 2004: Sen. Rick Santorum's name was misspelled in a story Thursday.

WASHINGTON

Rep. Harold Ford Jr., D-Tenn., plans to introduce legislation today that would give every American newborn a \$500 savings account - and a stake in the future.

Ford, who has touted the idea in speeches and on opinion pages for six months, is the author of the American Savings for Personal Investment, Retirement and Education (ASPIRE) Act that would create the savings accounts, redeemable beginning at age 18, with uses restricted to education, home ownership or retirement.

"What has inspired this is that I believe in this idea of an ownership society," Ford said Wednesday.

"The way to achieve it is to give every American a chance to own - not just rhetoric about ownership. The only way to do it is to just give everyone something at the start."

The proposal, estimated to cost \$3.25 billion the first year and \$37.5 billion over 10 years, will be introduced today with broad bipartisan and ideological backing. Sponsors include Republicans Sen. Rick Santorum of Pennsylvania and Rep. Thomas Petri of Wisconsin and Democrats Sen. Jon Corzine of New Jersey and Rep. Patrick Kennedy of Rhode Island.

The proposal calls for \$500 accounts for all newborns beginning in December 2005, with an additional \$500 for those babies born into poverty. Additional after-tax contributions of up to \$1,000 a year could be made by parents, grandparents, the child or friends, while the account itself would remain tax-free. Children in households below the median national income, now about \$42,300, could have those contributions matched dollar-for-dollar up to \$500 by the federal government.

Ford foresees the accounts blossoming into a cash asset of at least \$20,000 by the time the account holder reaches 18. The accounts would be administered by the Treasury Department and account balances would vary based on the investment risk level accepted, contributions and interest rates. Qualified distributions from the accounts would be tax-exempt and not included as gross income for federal tax purposes.

Margaret Clancy, a researcher with the Center for Social Development at Washington University in St. Louis, has studied the so-called "stakeholder" idea and says it has other benefits beyond the accumulation of financial assets.

"There might be some psychological effects of owning an account that was earmarked for developmental purposes," she said. Among them would be attitudinal adjustments, like poor families' stronger commitment to the future.

Ford suggests knowing a student has the financial wherewithal to attend a good college will have an ongoing positive effect in the classroom. And with everyone watching his or her portfolio, the plan virtually guarantees greater financial education.

In the first year, more than two-thirds of the account benefits would go to families earning less than \$42,300. Only 11 percent of the benefits would go to families making 200 percent of the median national income.

Charts developed for the proposal indicate that if wealthier parents contributed the \$1,000 annual contribution each year, with interest compounded at 5 percent, the account holder would be looking at \$31,208 at age 18. At 7 percent, the balance could hit \$37,980.

Critics have suggested one effect of the measure would be to increase college tuition 18 years from its start. Others say it could increase competition between colleges.

Ray Boshara, a researcher with the Washington-based New America Foundation, assisted in drafting the proposal and called it "fabulous public policy." Boshara said it would be revolutionary to provide an automatic deposit from the government at birth.

Boshara pointed out that one-quarter of all white children and half of all non-white children are being raised in households without significant savings or investment.

Ford said the act is called ASPIRE because, "Politics at its best helps people reach their aspirations. Most people's aspiration is for their children to have a better life, and that's what these accounts are all about."

KIDS ACCOUNTS

- Who would be eligible? Children born after Dec. 31, 2005
- What would they get? All would receive an initial \$500. Children born to families living below 50 percent of the national median income would receive an additional \$500. Those between 50 percent and 100 percent of the median national income would receive an adjusted portion of the \$500 supplement.
- What about additional contributions? Voluntary, private after- tax contributions of up to \$1,000 could be made.
- Repayment: Everyone who received the account would have to repay the initial \$500 contribution at age 30.